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Legislative Audit Division

State of Montana

Report to the Legislature

October 1999

Financial Audit

For the Fiscal Year Ended June 30, 1999

Montana Board of Housing

Department of Commerce

We performed a financial audit of the Montana Board of Housing for the fiscal year ended June 30, 1999. This report contains the audited financial statements and accompanying notes for fiscal year 1998-99. We issued an unqualified opinion on the financial statements of the board. The opinion means the reader may rely on the financial statement information presented.

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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Room 135, State Capitol
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Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

October 1999

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial audit of the Montana Board of Housing for fiscal year 1998-99. The objectives of our financial audit included determining if the board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 1999, with comparative combined totals at and for the period ending June 30, 1998. We tested compliance with state and federal laws that have a direct and material impact on the financial statements. Additional compliance testing for the program is included in our biennial audit of the Department of Commerce. There were no prior audit recommendations related to the board.

The Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. Montana Board of Housing's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs and working in partnership with other housing providers throughout Montana.

In fiscal year 1998-99, the board provided over $94 million in single family mortgage financing, helping 1,400 families to own their own home. The board also allocated nearly $1.1 million in Low Income Housing Tax Credits for 295 units of rental housing. At June 30, 1999, the board had approximately $423 million of outstanding single family mortgage loans and approximately $14 million of outstanding multifamily mortgage loans.

On page A-1, you will find the Independent Auditor's Report followed by the board's financial statements and accompanying notes. We issued an unqualified opinion on those financial statements which means the reader can rely on the presented information.

In addition to the annual financial audit of the board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report within the statements when the board issues bonds. We have also performed agreed-upon procedures that are conducted at selected Board of Housing loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and to determine compliance with contract requirements.

We thank the Board of Housing and their staff and the Department of Commerce staff for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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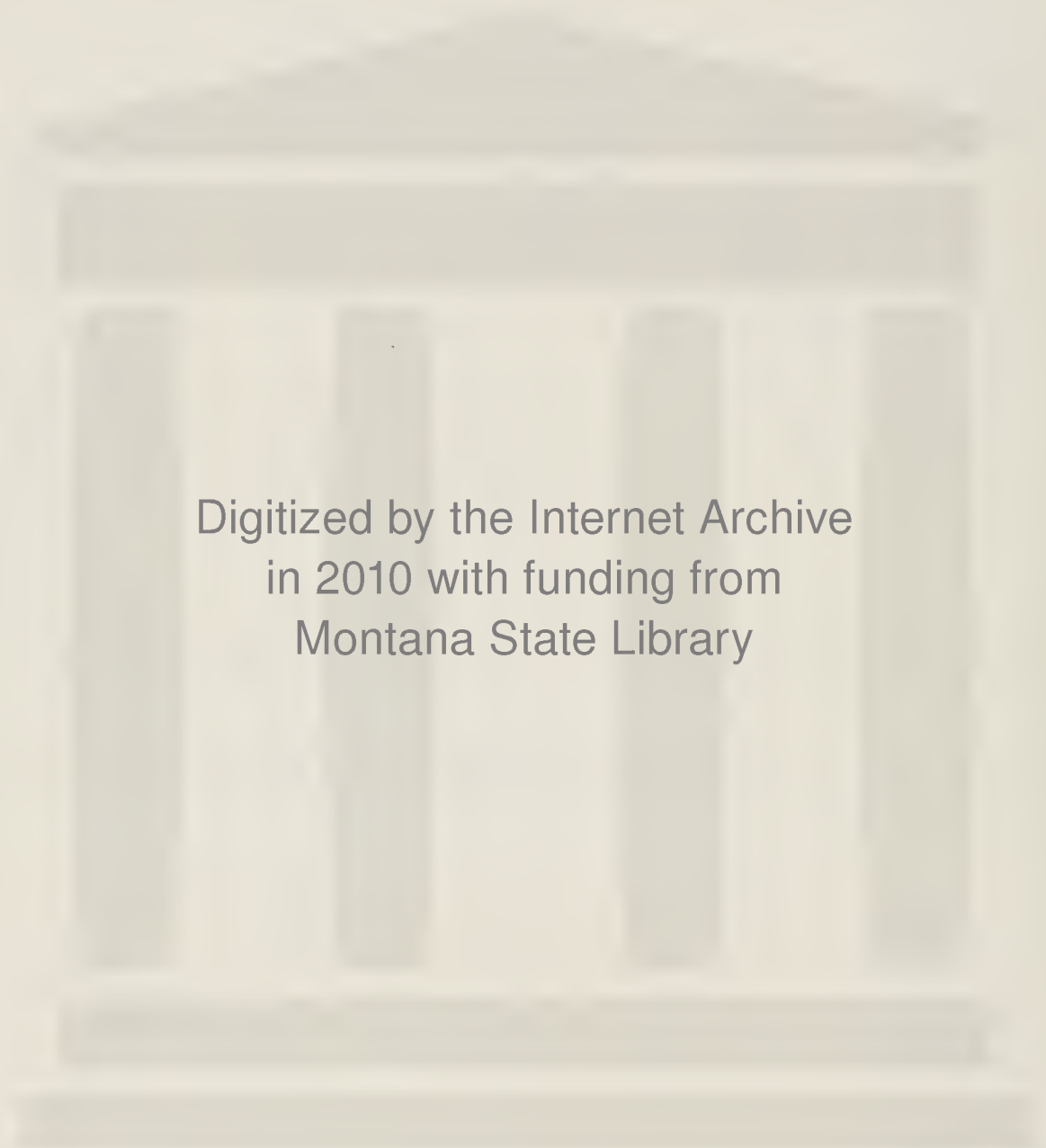
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Appointed and Administrative Officials

		Term Expires*
Montana Board of Housing Members	Bob Thomas, Chairman	2003
	Robert Savage, Vice Chairman	2001
	William Oser, Secretary	2001
	Ronda Carpenter	2001
	Waneeta Farris	2003
	Teresa Lightbody	2003
	Tom Welch	2001

* All terms expire on January 1 of the year noted.

Administrative Officials:

Department of Commerce	Peter S. Blouke, Ph.D., Director
Board of Housing	Maureen Rude, Executive Director
	Kelly Rusoff, Accounting and Finance Manager
	Bruce Brensdal, Multifamily Program Manager
	Bob Morgan, Single Family Program Manager

For further information on the Montana Board of Housing contact Maureen Rude, Executive Director, at:

PO Box 200528
Helena MT 59620-0528
(406)444-3040
e-mail: *maureenr@state.mt.us*

Members of the audit staff involved in this audit were Wayne D. Guazzo, Christopher D. May and Emlyn Neuman-Javornik.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combining Balance Sheet of the Enterprise Fund of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 1999 and 1998, and the related Combining Statement of Revenues, Expenses and Changes in Retained Earnings and the Combining Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 1999 and 1998, and the results of operations and its cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The year 2000 disclosure required supplementary information, and the Single Family Combining Balance Sheet as of June 30, 1999, and the related Single Family Combining Statement of Revenues, Expenses and Changes in Retained Earnings for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 10, 1999

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MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING BALANCE SHEET
June 30, 1999 with comparative combined totals for 1998

	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1999	Combined Totals 1998
ASSETS					
Cash and cash equivalents (Note 2)	$5,331,000	$206,757	$1,399,055	$6,936,812	$3,351,008
Investments (Note 4)	142,333,915	7,630,218	-	149,964,133	174,263,952
Mortgage Loans receivable (Note 5)	451,401,296	13,911,009	728,117	466,040,422	437,161,917
Interest receivable	4,098,030	108,518	130,176	4,336,724	4,710,719
Deferred bond issuance costs, net	5,529,173	275,723	-	5,804,896	5,866,787
Fixed assets (Note 8)	109,916	2,749	2,749	115,414	142,510
Prepaid expense	42,775	4,389	6,413	53,577	37,348
Accounts Receivable	1,315	195	161	1,671	-
Cash Collateral for Securities Lending	19,812	-	62,037	81,849	109,812
Total Assets	$608,867,232	$22,139,558	$2,328,708	$633,335,498	$625,644,053
LIABILITIES AND RETAINED EARNINGS					
Liabilities:					
Accounts payable	$265,202	$12,645	$5,208	$283,055	$362,999
Due to State Government	36,980	-	-	36,980	43,031
Property Held in Trust	5,000	-	609	5,609	1,402
Deferred Revenue	-	69,632	-	69,632	-
Accrued interest-bonds payable	3,181,378	388,833	-	3,570,211	4,444,160
Bonds payable, net (Note 9)	513,541,611	15,349,867	-	528,891,478	522,607,050
Deferred Refunding Costs	608,773	-	-	608,773	804,680
Arbitrage tax payable to U.S. Treasury Department (Note 13)	101,301	-	-	101,301	252,034
Accrued compensated absences	32,206	3,994	3,994	40,194	38,023
Collateral for Securities Lending	19,812	-	62,037	81,849	109,812
Total Liabilities	$517,792,263	$15,824,971	$71,848	$533,689,082	$528,663,191
Retained Earnings:					
Reserved Retained Earnings-Pledged to Bondholders (Note 1 & 11):					
Unrealized (losses) gains on investments	$419,108	($998)	-	$418,110	$3,004,153
Single Family Programs	70,167,798	-	1,086,875	71,254,673	63,866,114
Various Recycled Mortgage Programs	19,740,063	-	-	19,740,063	22,484,048
Multifamily Programs	-	3,766,756	-	3,766,756	3,590,767
Multifamily Project Commitments	323,000	2,548,829	-	2,871,829	2,330,001
Reverse Annuity Mortgage Program	350,000	-	1,039,076	1,389,076	1,431,181
Cash Assistance Program	75,000	-	130,909	205,909	274,598
Total Retained Earnings	91,074,969	6,314,587	2,256,860	99,646,416	96,980,862
Total Liabilities and Retained Earnings	$608,867,232	$22,139,558	$2,328,708	$633,335,498	$625,644,053

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1999 with comparative combined totals for 1998

	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1999	Combined Totals 1998
REVENUES:					
Interest income-mortgage loans	$31,156,878	$1,014,751	$38,143	$32,209,772	$31,916,315
Interest income-investments	10,602,996	365,538	64,487	11,033,021	9,912,370
Fee income	3,805	11,483	90,867	106,155	80,118
Net increase (decrease) in fair value of investments	(2,507,155)	(1,444)	-	(2,508,599)	2,856,485
Other income	519	11,207	160	11,886	11,836
Securities Lending Income	2,118	-	4,181	6,299	4,871
Total revenues	$39,259,161	$1,401,535	$197,838	$40,858,534	$44,781,995
EXPENSES:					
Interest on bonds	$33,523,236	$908,751	-	$34,431,987	$33,186,402
Servicer fees	1,659,595	16,501	-	1,676,096	1,602,658
Contracted Services	388,791	24,084	6,165	419,040	387,091
Amortization of bond issuance costs	122,337	16,341	-	138,678	379,570
General and administrative	767,320	72,323	82,137	921,780	788,622
Securities Lending Expense	2,018	-	3,984	6,002	4,751
Arbitrage rebate tax (Note 13)	33,848	-	-	33,848	92,868
Loss on redemption (Note 10)	562,296	-	-	562,296	440,871
Total Expenses	$37,059,441	$1,038,000	$92,286	$38,189,727	$36,882,833
Net operating income before operating transfers	2,199,720	363,535	105,552	2,668,807	7,899,162
Nonoperating expenses					
Loss on disposal of fixed assets	(2,929)	(162)	(162)	(3,253)	(38,828)
Operating Transfers in (out)	(250,000)	250,000	-	-	-
Net income	1,946,791	613,373	105,390	2,665,554	7,860,334
Retained Earnings, beginning of year:					
Reserved Retained Earnings-Pledged to Bondholders	89,128,178	5,701,214	2,151,470	96,980,862	89,111,812
Prior Period Adjustments	-	-	-	-	8,716
Retained Earnings, end of year:					
Reserved Retained Earnings-Pledged to bondholders	$91,074,969	$6,314,587	$2,256,860	$99,646,416	$96,980,862

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1999 with comparative combined totals for 1998

	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1999	1998
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts for Sales and Services	-	-	$90,867	$90,867	$45,900
Collections on Loans and Interest on Loans	96,372,197	1,827,815	143,782	98,343,794	89,665,926
Cash payments for Loans	(94,047,507)	(800,000)	(202,167)	(95,049,674)	(81,860,364)
Payments to Suppliers for Goods and Services	(2,339,166)	(76,846)	(43,739)	(2,459,751)	(2,261,146)
Payments to employees	(417,393)	(32,269)	(35,595)	(485,257)	(465,578)
Other Operating Revenues	519	11,207	160	11,886	11,836
Net Cash Provided by (Used for) Operating Activities	(431,350)	929,907	(46,692)	451,865	5,136,574
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of Principal and Interest on Bonds and Notes	(94,492,082)	(1,152,210)	-	(95,644,292)	(78,831,703)
Proceeds from Issuance of Bonds and Notes	65,000,000	1,625,000	-	66,625,000	51,780,000
Payment of Bond Issuance Costs	(855,055)	(67,275)	-	(922,330)	(687,110)
Premium Paid on Refunding Bonds	-	-	-	-	(409,100)
Transfers in (out)	(250,000)	250,000	-	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(30,597,137)	655,515	0	(29,941,622)	(28,147,913)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Fixed Assets	(9,416)	(523)	(523)	(10,462)	(98,000)
Net Cash Used for Capital and Related Financing Activities	(9,416)	(523)	(523)	(10,462)	(98,000)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(569,151,615)	(15,090,264)	-	(584,241,879)	(552,869,313)
Proceeds from Sales or Maturities of Investments	592,747,587	13,208,062	-	605,955,649	566,407,297
Interest on Investments	11,118,084	374,065	64,685	11,556,834	9,756,563
Arbitrage Rebate Tax	(184,581)	-	-	(184,581)	-
Net Cash Provided by (Used for) Investing Activities	34,529,475	(1,508,137)	64,685	33,086,023	23,294,547
Net Increase (Decrease) in Cash and Cash Equivalents	3,491,572	76,762	17,470	3,585,804	185,208
Cash and Cash Equivalents, beginning bal.	1,839,428	129,995	1,381,585	3,351,008	3,165,800
Cash and Cash Equivalents, ending bal.	$5,331,000	$206,757	$1,399,055	$6,936,812	$3,351,008

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1999 with comparative combined totals for 1998

	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1999	Combined Totals 1998
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	$2,199,720	$363,535	$105,552	$2,668,807	$7,899,162
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	22,719	173	11,412	34,304	33,775
Amortization	684,632	16,342	-	700,974	820,441
Interest Expense	33,523,236	908,751	-	34,431,987	33,186,402
Interest on Investments	(10,603,096)	(365,538)	(64,684)	(11,033,318)	(9,912,490)
Arbitrage Rebate Tax	33,848	-	-	33,848	92,868
Bad Debt Allowance	50,000	-	-	50,000	-
(Incr) Decr in fair value of investments	2,507,155	1,444	-	2,508,599	(2,856,485)
Change in Assets and Liabilities:					
Decr (Incr) in accounts receivable	(1,315)	(195)	(161)	(1,671)	849
Decr (Incr) in Mortgage Loans Receivable	(28,994,517)	(78,506)	(74,240)	(29,147,263)	(24,024,954)
Decr (Incr) in other assets	(69,886)	8,051	(26,466)	(88,301)	(222,525)
Incr (Decr) in Accounts Payable	(5,593)	6,912	2,015	3,334	19,019
Incr (Decr) in Deferred Reservation & Disc. Fees	219,336	(574)	-	218,762	103,608
Incr (Decr) in Deferred Revenue	-	69,632	-	69,632	-
Incr (Decr) in Compensated Absences Payable	2,411	(120)	(120)	2,171	(3,096)
Net Cash Provided by (Used for) Operating Activities	($431,350)	$929,907	($46,692)	$451,865	$5,136,574

See accompanying notes to financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:
The financial statements of the Board have been prepared in conformity with generally accepted accounting principles whereby revenues are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period.

Reporting Entity:
In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's General Purpose Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, retained earnings, revenues, and expenses. The Board is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Reserved Retained Earnings (pledged to bondholders) represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Reserved Retained Earnings: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting – continued
reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Reserved Retained Earnings also include reserved and committed funds for various programs established by the Board.

Fund Structure:
Single Family Mortgage Program Funds - these funds, established under ten separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development (RD).

The accompanying combining financial statements present the Single Family Mortgage Program Funds in one column. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indenture.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992, must be insured by the Federal Housing Administration.

On November 10, 1998, the Board issued $1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established for accounting for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the financial statements, includes activity for both Indentures.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Home Buyers Cash Assistance Program (CAP) to assist lower income individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents:
For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash held by trustees, and cash invested in the state's short term investment pool.

Investments:
Investment of the Board's monies is made in accordance with the Board's investment policy, dated February 22, 1999, which is in accordance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes, certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value", as required by GASB 31.

Mortgage Loans Receivable:
Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Fixed Assets:
Fixed assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of fixed assets consists of computers and software.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Bonds Payable:
Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:
The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, or by its trust department or agent but not in the Board's name. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 1999 and 1998, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
Fund	1	2	3	1999	1998
Program Funds*	$ 6,668,870	$ -	$ -	$6,668,870	$3,083,243
Deposited with State Treasury	267,942	-	-	267,942	267,765
	$ 6,936,812	$ -	$ -	$6,936,812	$ 3,351,008

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at $1 per unit. The market value of STIP is equal to the cost. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool, administered by the Board of Investments the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the Board of Investments (BOI) has, via, a Securities Lending Authorization Agreement authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the market value of the loaned securities and maintain collateral equal to not less than 100% of the market value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 1999 and 1998, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 1999 and 1998 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 1999 and 1998. More over, there were no losses during fiscal years 1999 and 1998 resulting from a default of the borrowers or State Street.

During fiscal years 1999 and 1998, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 1999 and June 30, 1998, BOI had no credit risk exposure to borrowers.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, or by its trust department or agent but not in the Board's name. The Board's investments at June 30, 1999 and 1998 consisted of Category 2 investments:

	1999		1998	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	$24,008,110	$24,007,007	$28,063,359	$28,063,359
U.S. Agency	$61,667,260	61,661,632	50,911,947	50,935,165
Repurchase agreements and Investment Contracts-- Collateralized	64,288,763	64,288,763	95,288,646	95,288,646
Total	$ 149,964,133	$149,957,402	$174,263,952	$174,287,170

NOTE 4. INVESTMENTS-Continued

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	1999		1998	
Funds	Single family Mortgage Program Funds	Multifamily Mortgage Program funds	Single family Mortgage Program funds	Multifamily Mortgage Program Funds
Debt service reserve	$43,885,429	$1,014,774	$44,232,155	$873,399
Mortgage reserve	$4,071,608	$202,238	$3,852,818	$216,434
Total	$47,957,037	$1,217,012	$48,084,973	$1,089,833

As of June 30, 1999 original bond proceeds of $32,073,703 were still on deposit in the 1997A , 1998A & 1998B program acquisition funds to be used for the purchase of Single Family Mortgage loans.

As of June 30, 1999 there was $31,187,987 in reservations outstanding in the 1997A ,1998A & 1998B bond issues.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	1999	1998
Mortgage loan receivables:		
Single Family Program	$456,452,325	$427,457,798
Multifamily Program	13,987,768	13,909,264
Housing Trust Program	728,117	653,879
	471,168,210	442,020,941
Net mortgage discounts and deferred reservation fees	(5,027,788)	(4,809,024)
Allowance for loan losses and real estate owned	(100,000)	(50,000)
	$466,040,422	$437,161,917

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 1997	$50,000
Provision	10,751
Less: Net loans charged off	(10,751)
Balance, June 30, 1998	50,000
Provision	78,778
Less: Net loans charged off	(28,778)
Balance, June 30, 1999	$ 100,000

The allowance for loan losses includes $50,000 at June 30, 1999 and $30,000 at June 30, 1998 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held three real estate owned properties during 1999 and one during 1998.

NOTE 7. MULTIFAMILY ESCROW AND RESERVE DEPOSITS HELD IN TRUST

For the years ended June 30, 1999 and 1998 escrow and reserve deposits for certain Multifamily mortgages were held in trust for the mortgagor for insurance, real estate taxes and a reserve for replacement under the terms of certain Regulatory Agreements between the Board and the mortgagors. The escrows amounted to $527,191 and $463,724 at June 30, 1999 and 1998 respectively. The escrows are invested with the earnings credited to the mortgagor of the project, not the Board. The escrow and related liabilities are not reflected in the accompanying combining balance sheet.

NOTE 8. FIXED ASSETS

Fixed assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	1999	1998
Furniture, fixtures, and equipment at cost	$244,667	$249,910
Accumulated depreciation	(129,253)	(107,400)
Net fixed assets	$ 115,414	$ 142,510

Depreciation expense included in general and administrative expense was $34,304 and $33,775 for the years ended June 30, 1999 and 1998 respectively.

NOTE 9. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	Original Amount	1999	1998
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 December 1, 2030 and December 1, 2037	$91,360,000	$87,940,000	$91,295,000
Single Family II Mortgage Bonds:			
1983 -			
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.	114,998,229	13,390,698	18,271,777
1984 -			
Series A, serial, term and CABS, 7.0% to 11.5% interest. Serial and term bonds refunded August 1, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010.	75,002,290	621,192	1,200,675

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1999	1998
1985 - Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016;	39,999,625	7,204,721	7,937,515
1985 - Series B, term bonds maturing in scheduled semi-annual installments commencing June 1, 2006 to June 1, 2011.	74,996,862	2,670,000	3,250,000
1992 - Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing in scheduled semi-annual installments commencing June 1, 2003 to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000
1994 - Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1,2015 and December 1, 2024.	25,725,000	15,735,000	17,810,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	15,340,000	24,735,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments commencing December 1, 1996 to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	6,295,000	9,185,000

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1999	1998
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments commencing December 1, 1997 to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	33,580,000	22,560,000	26,470,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	85,885,000	86,535,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments commencing June 1, 1999 to December 1, 2009, and on December 1, 2012, December 1, 2016, December 1, 2024, and June 1, 2028.	65,000,000	59,465,000	64,265,000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments commencing June 1, 2001 to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, June 1, 2030 and June 1, 2031.	51,780,000	51,175,000	51,780,000
1998			
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments commencing June 1, 2006 to December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	64,915,000	-
Total bonds outstanding Single Family II		367,776,611	333,959,967
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	24,000,000	3,480,000	6,750,000
Subordinate Bonds	1,000,000	65,000	180,000

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1999	1998
Single Family IV Mortgage Bonds:			
1989 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 7% to 9.2% interest, maturing in scheduled semi-annual installments to October 1, 2004, and on October 1, 2009, October 1, 2018 and October 1, 2020.			
Senior Bonds	24,000,000	4,630,000	7,565,000
Subordinate Bonds	1,000,000	120,000	215,000
Single Family V Mortgage Bonds:			
1990 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.525% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017 and October 1, 2021.			
Senior Bonds	24,000,000	5,835,000	8,760,000
Subordinate Bonds	1,000,000	200,000	320,000
Single Family VI Mortgage Bonds:			
1990 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 6.2% to 8.5% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017, and April 1, 2022.			
Senior Bonds	24,000,000	6,450,000	9,760,000
Subordinate Bonds	1,000,000	230,000	355,000
Single Family VII Mortgage Bonds:			
1990 -			
Series C-1 and C-2, serial and term bonds and subordinate bonds, 6.45% to 8.95% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2010, October 1, 2017, October 1, 2021, and April 1, 2022.			
Senior Bonds	24,000,000	5,575,000	9,130,000
Subordinate Bonds	1,000,000	210,000	370,000

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1999	1998
Single Family VIII Mortgage Bonds:			
1991 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.			
Senior Bonds	24,000,000	8,505,000	11,655,000
Subordinate Bonds	1,000,000	330,000	475,000
Single Family IX Mortgage Bonds:			
1991 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.			
Senior Bonds	24,000,000	9,405,000	12,365,000
Subordinate Bonds	1,000,000	380,000	510,000
Single Family X Mortgage Bonds:			
1992 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.			
Senior Bonds	24,000,000	11,880,000	14,330,000
Subordinate Bonds	1,000,000	530,000	615,000
Total Single Family Mortgage bonds payable, net		513,541,611	508,609,967

All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

Single Family I and II mortgage series bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

NOTE 9. BONDS PAYABLE, NET - continued

	Original Amount	1999	1998
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	4,865,000	4,030,000	4,105,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	8,790,000	8,970,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2001, and on August 1, 2016, and August 1, 2026.	890,000	860,000	875,000
1998			
Series A 3.5% to 4.70% interest, serial and term Bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,625,000	-
Total bonds outstanding		15,305,000	13,950,000
Unamortized bond premiums		44,867	47,083
Total Multifamily Mortgage bonds payable, net		15,349,867	13,997,083
Combined total bonds payable, net		$528,891,478	$522,607,050

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The 1998A Multifamily bonds are general obligations of the Board.

The following is a primary summary of bond principal and interest requirements as of June 30, 1999:

Year Ending June 30:	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
2000	$37,630,449	$1,271,959	$ 8,402,315	$30,500,093
2001	38,891,488	1,283,706	9,963,929	30,211,265
2002	39,538,929	1,278,826	10,996,626	29,821,129
2003	41,195,184	1,272,681	12,424,693	30,043,172
2004	42,649,806	1,265,370	13,494,025	30,421,151
Thereafter	906,353,475	22,638,072	473,565,023	455,426,524
Total	$1,106,259,331	$29,010,614	$528,846,611	$606,423,334

Cash paid for interest expenses during the years ending June 30, 1999 and 1998 was $33,125,649 and $30,886,406.

NOTE 10. LOSS ON REDEMPTION

During the years ended June 30, 1999 and 1998 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	1999	1998
Single Family I		
December 1	$495,000	-
June 1	2,720,000	-
	3,215,000	-
Single Family II		
October 1		$10,165,759
December 1	$16,914,266	7,939,499
March 1	1,000,000	-
June 1	10,147,950	9,437,040
	28,062,216	27,542,298
Single Family III		
October 1	$1,650,000	$1,030,000
April 1	1,555,000	615,000
	3,205,000	1,645,000
Single Family IV		
October 1	$1,665,000	$645,000
April 1	1,240,000	875,000
	2,905,000	1,520,000
Single Family V		
October 1	$1,215,000	$840,000
April 1	1,600,000	745,000
	2,815,000	1,585,000
Single Family VI		
October 1	$1,455,000	$600,000
April 1	1,745,000	820,000
	3,200,000	1,420,000
Single Family VII		
October 1	$1,640,000	$685,000
April 1	1,855,000	945,000
	3,495,000	1,630,000
Single Family VIII		
October 1	$990,000	$1,075,000
April 1	1,985,000	940,000
	2,975,000	2,015,000
Single Family IX		
October 1	$1,445,000	$820,000
April 1	1,345,000	1,100,000
	2,790,000	1,920,000
Single Family X		
October 1	$1,150,000	$680,000
April 1	1,045,000	795,000
	2,195,000	1,475,000
Total	$54,857,216	$40,752,298

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of $562,296 and $440,871 in 1999 and 1998 respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $4,060,355 from the issuance of the 1997 Series A Bonds and $2,720,279 from the issuance of the 1998 Series A Bonds and $24,407,353 from the 1998 Series B bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	$690,922
Glacier Affordable Housing Program	2,136,462
City of Billings (203k)	2,329,576
Butte-Silverbow	901,000
District IX Human Resources	337,000
City of Kalispell	1,985,905
Neighborhood Housing Services (AHP)	1,139,222
Neighborhood Housing Services (O & P)	660,000
Ronan Housing Authority	371,525
Habitat for Humanity	1,170,159
Cash Assistance Program	850,112
City of Lewistown	746,670
City of Glendive	552,458
Ravalli County	1,950,000
Neighborhood Housing Services (statewide)	2,000,000
City of Red Lodge	700,000
First Time Homebuyers Savings Account	428,821
Disabled Affordable Accessible Homeownership Program	790,231
Total Single Family commitments	$19,740,063

Other Commitments--Single Family I

Safe House	$103,000
Samaritan House	220,000
Reverse Annuity Mortgage Program	350,000
Cash Assistance Program	75,000
Total Single Family I Other Commitments	$748,000

The Board has committed to purchase Multifamily Mortgages as noted below:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	$176,160
Superior Senior Housing	128,000
Pond Row Apartments	567,500
Clarkfork Manor	1,452,169
Parkside Apartments	225,000
Total Multifamily commitments	$2,548,829

The Board has committed Housing Trust Funds as noted below:

Home buyers Cash Assistance Program-Disabled	$28,932
Cash Assistance Program-VI	101,977
Reverse Annuity Mortgage Program	1,039,076
Total Housing Trust Fund commitments	$1,169,985

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 12. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plan are required and determined by State law.

The contribution rates for 1999 expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
6.90%	6.90%	13.80%

The amounts contributed to the plan during the years ended June 30, 1997, 1998 and 1999 were equal to the required contribution each year. The amounts contributed by both the Board (including voluntary contributions by employees as permitted by State law) were as follows:

Fiscal Year 1997- $22,656
Fiscal Year 1998- $24,866
Fiscal Year 1999- $25,930

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 13. CONTINGENT ARBITRAGE REBATE TAX LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

Cash paid in arbitrage rebate taxes to the Treasury Department was $184,581 for fiscal year ending June 30, 1999. There were no payments for the fiscal year ending June 30, 1998. The liabilities are $101,301 and $252,034 as of June 30, 1999 and 1998, respectively.

NOTE 14. SUBSEQUENT EVENTS

On August 4, 1999, the board issued $60,000,000 in bonds under the Single Family I Indenture. A portion of the bond proceeds were used to fully refund the 1989A Single Family Program Issue on October 1, 1999. On September 9, 1999, the board issued $9,860,000 in bonds under the Multifamily Indenture.

NOTE 15. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

MONTANA BOARD OF HOUSING
Year 2000 Disclosure
Required Supplementary Information

The Year 2000 (Y2K) Issue refers to potential problems with computer systems or any equipment with computer chips or software that uses dates where the date has been stored as just two digits (e.g. 99 for 1999). On January 1, 2000, any clock or date recording mechanism incorporating date-sensitive software which uses only two digits to represent the year may recognize a date using 00 as the year 1900 instead of the year 2000. This could result in a system failure or miscalculations causing disruption of operations, including, among other things, a temporary inability to process transactions, send billings, or engage in similar business activities.

The Montana Board of Housing (the Board) has implemented a plan for Y2K readiness and compliance of its computerized information systems, which is comprised of five stages that are consistent with GASB Technical Bulletins:

Awareness Stage – Establishing a budget and project plan to address potential problems.

Assessment Stage – Identifying all affected systems.

Remediation Stage – Implementing necessary changes to affected systems including converting existing systems, changing or upgrading to compliant systems.

Validation and Testing Stage – Test modified systems to ensure no errors resulted from the Remediation stage and that all solutions were successful.

Implementation Stage – Using new or upgraded systems that have been successfully tested.

The Board has performed a basic analysis of its computer hardware, software, and office equipment for Y2K compliance. The Board is currently working in the remediation stage and expects to complete the upgrade or replacement of necessary systems and equipment by September 30, 1999, in order to make them Y2K compliant. To date, no Y2K issues have arisen that would prevent the Information Systems Department from meeting its deadlines for evaluation and compliance. We do not anticipate that its computer systems and other technology will adversely affect the Board's operation. Amounts spent or payable as of June 30, 1999 have not been material, and the costs expected to be incurred to obtain full compliance are not expected to be material in comparison with the Board's financial statements. Finally, the Board has nearly completed the process of surveying its trustees, loan servicers, and other third parties which it has programmatic or financial interactions for information regarding the status of their Y2K compliance. The Board does not currently anticipate that Y2K compliance issues of partner organizations will have a material adverse effect on the Board.

Because of the unprecedented nature of the Year 2000 issues, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Board is or will be Year 2000 ready, that the Board's remediation efforts will be successful in whole or in part, or that parties with whom the Board does business will be year 2000 ready.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1999

	Single Family I	Single Family II	Single Family III
ASSETS			
Cash and cash equivalents	$1,464,302	$3,682,996	$16,654
Investments	27,425,467	102,891,030	1,019,302
Mortgage loans receivable	84,583,109	318,874,344	3,008,700
Interest receivable–Investments	139,015	752,765	16,185
Interest receivable-Mortgages	566,839	2,059,803	30,365
Deferred bond issuance costs, net	960,032	3,888,163	37,690
Fixed assets	29,292	80,624	-
Prepaid expense	8,983	33,792	-
Accounts Receivable	276	1,039	-
Cash Collateral for Securities Lending	-	19,812	-
Total assets	$115,177,315	$432,284,368	$4,128,896
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$47,918	$181,328	$4,101
Due to State Government	-	36,980	-
Property Held in Trust	-	5,000	-
Accrued interest bonds payable	430,709	1,675,409	68,875
Bonds payable, net	87,940,000	367,776,611	3,545,000
Deferred refunding costs	(10,557)	619,330	-
Arbitrage tax payable to U.S. Treasury Department	-	10,154	-
Accrued compensated absences	6,763	25,443	-
Cash Collateral for Securities Lending	-	19,812	-
Total liabilities	$88,414,833	$370,350,067	$3,617,976
RETAINED EARNINGS:			
Reserved Retained Earnings-Pledged to Bondholders			
Unrealized Losses	-	419,108	-
Single Family Programs	26,014,482	41,775,130	510,920
Reverse Annuity Mortgage Programs	350,000	-	-
Multifamily Project Commitments	323,000	-	-
Various Recycled Mortgage Programs	-	19,740,063	-
Cash Assistance Program	75,000		-
Total Retained Earnings	26,762,482	61,934,301	510,920
Total Liabilities and Retained Earnings	$115,177,315	$432,284,368	$4,128,896

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1999

	Single Family IV	Single Family V	Single Family VI	Single Family VII
ASSETS				
Cash and cash equivalents	$38,469	$48,131	$18,244	$14,889
Investments	885,974	1,476,885	1,646,427	1,136,017
Mortgage loans receivable	4,000,731	4,844,526	5,351,268	5,006,899
Interest receivable–Investments	16,645	22,598	27,195	19,644
Interest receivable-Mortgages	42,059	38,660	46,071	48,120
Deferred bond issuance costs, net	56,780	71,524	78,692	64,971
Fixed assets	-	-	-	-
Prepaid expense	-	-	-	-
Cash Collateral for Securities Lending	-	-	-	-
Total assets	$5,040,658	$6,502,324	$7,167,897	$6,290,540
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$3,342	$3,494	$4,057	$3,726
Due to State Government	-	-	-	-
Property Held in Trust	-	-	-	-
Accrued interest bonds payable	96,651	116,657	128,651	113,441
Bonds payable, net	4,750,000	6,035,000	6,680,000	5,785,000
Deferred refunding costs	-	-	-	-
Arbitrage tax payable to U.S. Treasury Department	10,408	48,569	32,170	-
Accrued compensated absences	-	-	-	-
Cash Collateral for Securities Lending	-	-	-	-
Total liabilities	$4,860,401	$6,203,720	$6,844,878	$5,902,167
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Unrealized Gains	-	-	-	-
Single Family Programs	180,257	298,604	323,019	388,373
Reverse Annuity Mortgage Programs	-	-	-	-
Multifamily Project Commitments	-	-	-	-
Various Recycled Mortgage Programs	-	-	-	-
Cash Assistance Program	-	-	-	-
Total Retained Earnings	180,257	298,604	323,019	388,373
Total Liabilities and Retained Earnings	$5,040,658	$6,502,324	$7,167,897	$6,290,540

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1999

	Single Family VIII	Single Family IX	Single Family X	Combined totals
ASSETS				
Cash and cash equivalents	$17,808	$22,692	$6,815	$5,331,000
Investments	1,737,785	1,945,681	2,169,347	142,333,915
Mortgage loans receivable	7,432,925	8,101,414	10,197,380	451,401,296
Interest receivable–Investments	26,695	28,154	29,938	1,078,834
Interest receivable-Mortgages	56,005	59,651	71,623	3,019,196
Deferred bond issuance costs, net	107,843	113,503	149,975	5,529,173
Fixed assets	-	-	-	109,916
Prepaid expense	-	-	-	42,775
Account Receivable	-	-	-	1,315
Cash Collateral for Securities Lending	-	-	-	19,812
Total assets	$9,379,061	$10,271,095	$12,625,078	$608,867,232
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$5,016	$5,399	$6,821	$265,202
Due to State Government	-	-	-	36,980
Property Held in Trust	-	-	-	5,000
Accrued interest bonds payable	161,780	178,186	211,019	3,181,378
Bonds payable, net	8,835,000	9,785,000	12,410,000	513,541,611
Deferred refunding costs	-	-	-	608,773
Arbitrage tax payable to U.S. Treasury Department	-	-	-	101,301
Accrued compensated absences	-	-	-	32,206
Cash Collateral for Securities Lending	-	-	-	19,812
Total liabilities	$9,001,796	$9,968,585	$12,627,840	$517,792,263
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Unrealized Gains	-	-	-	419,108
Single Family Programs	377,265	302,510	(2,762)	70,167,798
Reverse Annuity Mortgage Programs	-	-	-	350,000
Multifamily Project Commitments	-	-	-	323,000
Various Recycled Mortgage Programs	-	-	-	19,740,063
Cash Assistance Program	-	-	-	75,000
Total Retained Earnings	377,265	302,510	(2,762)	91,074,969
Total Liabilities and Retained Earnings	$9,379,061	$10,271,095	$12,625,078	$608,867,232

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1999

	Single Family I	Single Family II	Single Family III
REVENUES:			
Interest Income-mortgage loans	$5,903,779	$20,391,450	$373,967
Interest Income-Investments	1,880,937	7,482,962	130,457
Fee income	-	3,805	-
Gain (loss) on sale of investments	-	(2,507,155)	-
Other income	-	519	-
Securities Lending Income	-	2,118	-
Total revenues	$7,784,716	$25,373,699	$504,424
EXPENSES:			
Interest on bonds	$5,330,584	$22,910,164	$405,790
Servicer fees	317,223	1,120,603	15,814
Contracted Services	62,158	286,522	3,198
Amortization of bond issuance costs	48,420	19,300	4,283
General and administrative	138,578	601,222	-
Arbitrage rebate tax	-	10,154	-
Loss on redemption	35,349	245,340	35,128
Securities Lending Expense	-	2,018	-
Total expenses	$5,932,312	$25,195,323	$464,213
Net operating income (loss)	1,852,404	178,376	40,211
Loss on disposal of fixed assets	(732)	(2,197)	-
Operating transfers out	(250,000)	-	-
Net income (loss)	1,601,672	176,179	40,211
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholders	25,160,810	61,758,122	470,709
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholders	$26,762,482	$61,934,301	$510,920

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1999

	Single Family IV	Single Family V	Single Family VI	Single Family VII
REVENUES:				
Interest Income-mortgage loans	$455,393	$532,609	$587,363	$550,696
Interest Income-Investments	137,052	149,636	170,942	160,944
Fee income	-	-	-	-
Gain (loss) on sale of investments	-	-	-	-
Other income	-	-	-	-
Securities Lending Income	-	-	-	-
Total revenues	$592,445	$682,245	$758,305	$711,640
EXPENSES:				
Interest on bonds	$501,027	$590,778	$651,766	$602,949
Servicer fees	18,982	23,941	26,078	23,637
Contracted Services	3,237	3,879	7,485	3,868
Amortization of bond issuance costs	5,439	5,890	6,299	5,900
General and administrative	2,736	3,482	640	3,495
Arbitrage rebate tax	6,025	8,428	9,241	-
Loss on redemption	35,905	34,175	38,601	40,312
Securities Lending Expense	-	-	-	-
Total expenses	$573,351	$670,573	$740,110	$680,161
Net operating income (loss)	19,094	11,672	18,195	31,479
Loss on disposal of fixed assets	-	-	-	-
Operating transfers out	-	-	-	-
Net income (loss)	19,094	11,672	18,195	31,479
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholders	161,163	286,932	304,824	356,894
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholders	$180,257	$298,604	$323,019	$388,373

MONTANA BOARD OF HOUSING
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1999

	Single Family VIII	Single Family IX	Single Family X	Combined totals
REVENUES:				
Interest Income-mortgage loans	$729,793	$775,582	$856,246	$31,156,878
Interest Income-Investments	171,569	166,300	152,197	10,602,996
Fee income	-	-	-	3,805
Gain (loss) on sale of investments	-	-	-	(2,507,155)
Other income	-	-	-	519
Securities Lending Income	-	-	-	2,118
Total revenues	$901,362	$941,882	$1,008,443	$39,259,161
EXPENSES:				
Interest on bonds	$783,582	$821,941	$924,655	$33,523,236
Servicer fees	33,922	36,301	43,094	1,659,595
Contracted Services	5,080	6,971	6,393	388,791
Amortization of bond issuance costs	8,118	8,803	9,885	122,337
General and administrative	5,667	4,327	7,173	767,320
Arbitrage rebate tax	-	-	-	33,848
Loss on redemption	37,074	33,252	27,160	562,296
Securities Lending Expense				2,018
Total expenses	$873,443	$911,595	$1,018,360	$37,059,441
Net operating income (loss)	27,919	30,287	(9,917)	2,199,720
Loss on disposal of fixed assets	-	-	-	(2,929
Operating transfers out	-	-	-	(250,000
Net income (loss)	27,919	30,287	(9,917)	1,946,791
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholders	349,346	272,223	7,155	89,128,178
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholders	$377,265	$302,510	($2,762)	$91,074,969

MONTANA
DEPARTMENT OF COMMERCE

Montana Board of Housing
836 Front Street
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OCT 2 2 1999

Mr. James Gillett
Deputy Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620-1705

Dear Mr. Gillett:

Thank you for the opportunity to respond to the Audit Report on the 1998-99 Board of Housing Fianancial Statements. We are pleased with the unqualified opinion. We appreciate the hard work the staff has put in to the Board's audit. We also realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation. We also appreciate your staff comments regarding new and upcoming changes in standards.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,

Maureen J. Rude
Executive Director